



Department of Public Works  
Administration

Jeffrey S. Polenske, P.E.  
Commissioner of Public Works

**MEMO**

**To: Honorable Common Council Members  
Finance and Personnel Committee Members**

**From: Jeffrey Polenske P.E.**   
**Commissioner of Public Works**

**CC: Dennis Yaccarino  
Chris Lee  
Dana Zelazny**

**Date: October 20, 2020**

**Re: The Hop Streetcar System  
2021 Proposed Budget  
Suspension of Service**

The 2021 proposed City budget includes \$4.50 million in total expenditures for streetcar operations and \$1.33 million in anticipated non-City revenues. The \$3.17 million difference is proposed to be funded from net revenues from the Transportation Enterprise Fund. Use of the Transportation Enterprise Fund as the source of local funding was approved with Common Council Resolution 141313 "until such time as a dedicated local funding source for public transit in Milwaukee County is established".

As part of the 2021 budget deliberations, DPW has been asked to document the consequences of suspending streetcar service in 2021 as a cost saving measure and to increase the transfer of net Transportation Fund revenues to the general fund.

Payback of Remaining Federal Interest

The Federal Transit Administration (FTA) has awarded the City of Milwaukee a total of \$66,892,803 (\$52,692,803 M-Line, \$14,200,000 L-Line) in federal grants for capital costs for The Hop streetcar projects. The grant agreements executed between the City of Milwaukee and FTA are legally binding agreements that incorporate the provisions of the "Federal Transit Administration Master Agreement" by reference.

*Section 19. Use of Real Property, Equipment and Supplies* of the FTA Master Agreement includes an acknowledgement that the Federal Government retains a federal interest in all real property, equipment, and supplies acquired with grant funding until, and to the extent that, the Federal Government removes its federal interest – Section 19 (a).

Furthermore, *Section 19. Use of Real Property, Equipment and Supplies* of the FTA Master Agreement includes the following provisions:

- *Satisfactory Continuing Control.* The grant recipient shall maintain “Satisfactory Continuing Control” of the projects property, defined as the assurance that the projects will remain available to be used for the originally authorized purpose throughout their useful life or until disposition - Section 19 (b) (1)
- *Appropriate Use.* The grant recipient shall use the projects property for appropriate purposes for the duration of the useful life of the project property – Section 19 (b) (2)
- *Failure to Use Project Property.* The Federal Government may require it to return the entire amount of federal assistance spent on the projects property if, during the useful life of its projects property, it has...failed to use its project property – Section 19 (b) (3)
- *Maintenance.* The grant recipient agrees to maintain its projects property in good operating order – Section 19 (d)
- *Useful Life of Project Property, Required Use.* The grant recipient shall use its projects property continuously and appropriately throughout the useful life of that property – Section 19 (i) (2)
- *Useful Life of Project Property, Premature Withdrawal, Financial Commitments to the Federal Government.* The grant recipient agrees that if its projects property is prematurely withdrawn from appropriate use, the grant recipient shall return an amount equal to the remaining federal interest in the withdrawn property to the Federal Government – Section 19 (i) (4) (ii)

Suspending streetcar service in 2021 would violate the terms of the Master Agreement, most notably the requirement to use the improvements constructed with federal funding **continuously** and appropriately throughout the useful life of the project and would potentially require that the City return the value of the remaining federal interest in the project. As the streetcar improvements are nearly new, a 1-year suspension of service could potentially require that a vast majority of the \$66,892,803 federal investment be returned.

#### Payback of Federal CARE’s Act Operating Assistance Grant

FTA recognizes that transit is an essential service and provided CARE’s Act Operating Assistance grants to all transit systems in the country to help maintain transit service during the COVID-19 pandemic. The City of Milwaukee was awarded \$492,250 under the CARE’s Act Operating Assistance program to maintain transit service during the COVID-19 pandemic. A 1-year suspension of service during COVID-19 would likely require that the City return the \$492,250 grant. It is also important to note that additional federal operating assistance is being considered as a part of a second CARE’s Act assistance program.

#### Reduction in 2021 Revenues

In the event the city suspended streetcar service in 2021, the City would forfeit approximately \$1.33 million in 2021 non-City revenues (\$833,000 from Potawatomi sponsorship revenues, \$110,000 from Federal 5307 formula funding revenues, and \$390,000 in other advertising and sponsorship revenues).

### Potential 2021 Operational Cost Savings While Maintaining Core Service

As the effects of COVID-19 on downtown activity are expected to continue into 2021, the 2021 proposed budget reflects temporary reduced service hours and frequency through the first quarter while maintaining a core service for essential trips and transit dependent citizens. The 2021 proposed budget reflects an \$82,560 savings resulting from the temporary service reduction. However, depending on when the City emerges from the effects of COVID-19 and downtown activity resumes, there is potential to extend the reduced service levels beyond the first quarter and realize additional savings.

### Potential 2021 Operational Cost Savings Resulting from Suspension of Streetcar Service

In the event service is suspended in 2021 with the plan to resume service in 2022, the City of Milwaukee would continue to incur significant operations costs in 2021 and only a portion of the \$4.50 million in proposed 2021 expenditures for streetcar operations would be eliminated under a suspension of service.

Transdev, the streetcar operations and maintenance contractor, would reduce staff (primarily operators and supervisors) but would need to retain a core level of staff to perform the following functions during a suspension of passenger service:

- Preventative maintenance of the vehicles
- “Exercise” the streetcar vehicles on the alignment as part of vehicle maintenance procedures
- Preventative maintenance of streetcar infrastructure (tracks, switches, train control equipment, traction power substations, overhead contact system)
- Preventative maintenance of Operations and Maintenance Facility
- Respond to/Repair damage to streetcar infrastructure
- Maintain safety systems
- Maintain track access permitting system
- Energize overhead contact system when exercising vehicles and de-energizing when not in use

In addition to continuing costs incurred by the operations and maintenance contractor, the City would continue to incur additional costs during a suspension of passenger service including energy costs, vehicle insurance costs, and other miscellaneous costs.

Additionally, significant costs would be incurred to re-start operations. Transdev would have to reassemble a workforce to provide passenger service and train/certify operators and supervisors.

Furthermore, a robust marketing effort would be beneficial to promote the restart and restore momentum lost during the suspension.

A comparison of estimated streetcar operating expenditures under a suspension of passenger service in 2021 with the 2021 proposed budget is shown below:

	<u>2021 Proposed Budget</u>	<u>2021 Suspended Service</u>
<b>Salaries/Fringe</b>	<b>\$272,092</b>	<b>\$272,092</b>
<b>Professional Services</b>	<b>\$3,844,645</b>	<b>\$2,020,000-\$2,415,000</b>
Operator	3,499,645	\$2,000,000-\$2,295,000
Marketing	\$325,000	\$0-\$100,000
Stray Current	\$20,000	\$20,000
<b>Energy</b>	<b>\$225,000</b>	<b>\$40,000</b>
<b>Vehicle Insurance</b>	<b>\$110,000</b>	<b>\$110,000</b>
<b>Other Operating Expenditures</b>	<b>\$49,000</b>	<b>\$25,000</b>
<b>Start-Up</b>	<b>\$0</b>	<b>\$150,000</b>
<b>TOTAL</b>	<b>\$4,500,737</b>	<b>\$2,617,092-\$3,012,092</b>

In total, it is estimated that expenditures would be reduced from \$4.50 million to between \$2.62 million and \$3.01 million by suspending passenger service in 2021. With no non-City revenues generated, the entire cost would be borne directly from net revenues from the Transportation Fund. Suspending service during 2021 would be expected to reduce the contribution of the Transportation Enterprise Fund from \$3.17 million under the proposed budget to between \$2.62 million and \$3.01 million for a net savings of between \$155,312 and \$550,312. Any required reimbursement of federal grants resulting from the suspension of passenger service, such as the \$492,250 in CARE’s Act Operating Assistance funding, would further reduce or eliminate any savings compared to maintaining passenger service.

#### Elimination of Essential Transportation Services

Transit is considered an essential service by the federal government and was specifically identified as an essential service in the State of Wisconsin’s “Safer at Home” directives. The Hop provides transportation services for essential trips, the disabled, the elderly, the economically disadvantaged, and those citizens who do not have access to other forms of transportation. Suspension of service would leave those that have come to depend on The Hop to make essential trips to the grocery store, pharmacy, etc. without this essential service at a time when it may be most needed.

#### Employment Impacts

Transdev has made efforts to employ a racially diverse workforce with a vast majority hired from the community. Any suspension of passenger service would necessitate Transdev to reduce the workforce, particularly operators and road supervisors, who depend on the employment opportunities provided by The Hop during the suspension.

#### Community Impact

The Hop is an important part of our City’s broader transportation network, and we have a large community of riders that utilize the service. While we don’t know what the future holds in terms of the pandemic and the return to normalcy for the downtown community, we do know how critical public transportation is in creating a more inclusive community where more destinations are more accessible to more people. As a free transit offering operating in an area where parking can be costly, The Hop

makes the downtown business district's employment and entertainment opportunities more accessible for the entire community. During a time when our focus is justifiably on addressing inequities within our community, the removal of free public transit as a public service would run counter to that mission.

#### Development Impact

Since the streetcar system was approved by the Council in 2015, we have seen billions of dollars in downtown development, with much of it occurring along or near the streetcar route. The resulting growth in the city's tax base and economic activity generated by more people living, working and visiting downtown creates a ripple effect that positively impacts all corners of the city. While the streetcar is certainly not the sole catalyst of Milwaukee's pre-COVID growth, it is undeniably a contributing factor.

What makes the streetcar a magnet for development is its permanence. Unlike bus routes, fixed-rail infrastructure is not easily altered, which gives developers confidence that investing along the route is a worthwhile proposition. As our City works to rebound from this ongoing crisis and position the local economy for a swift recovery, attracting long-term investment in the City will be critical. Even a temporary suspension in service would undermine the streetcar's value as a development tool.